

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

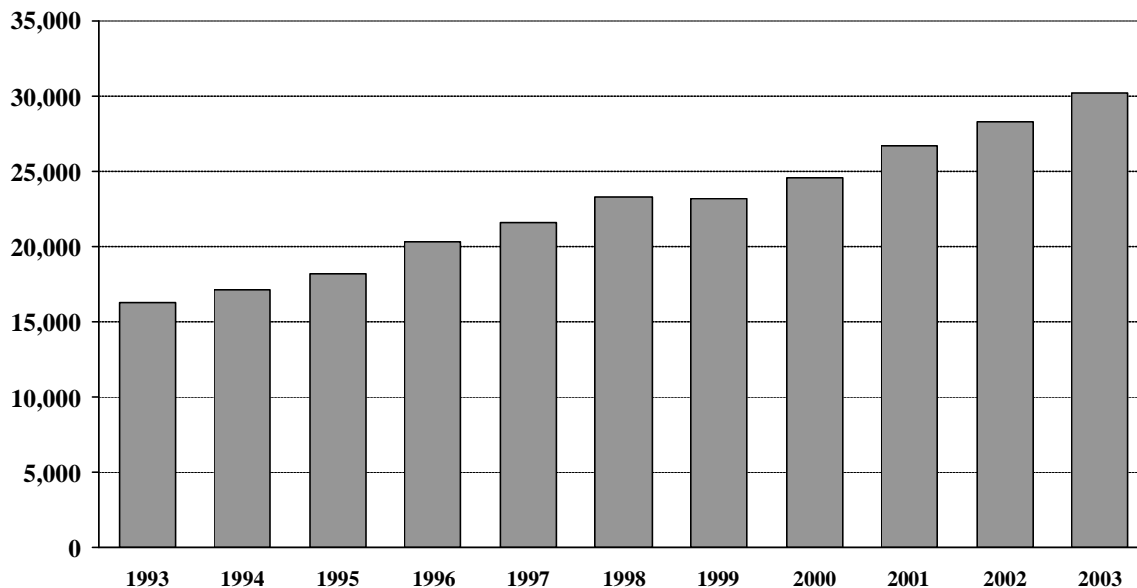
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- **Forecast 2000-2003**
- **Are We Saving Enough?**
- **Alternative Forecasts**

Idaho Electrical & Nonelectrical Employment



**IDAHO
ECONOMIC
FORECAST
2000 - 2003**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop- and-start economic performance, the 1990s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes difficult restructuring) of its key basic industries.

The State's traditional industries such as lumber and wood products, food processing, and mining—have become more competitive. The high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise in this decade, and is expected to sustain solid growth well through the first decade of the new millennium.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the much broader base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, more Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have recently grown. And although nearly two-thirds of Idaho cities lost population during the previous decade, many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm—most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the new century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the September 2000 Standard and Poor's DRI baseline forecast of the U.S. economy. The July 2000 *Idaho Economic Forecast* is based on the June 2000 DRI national forecast.

The path of Idaho electrical and nonelectrical manufacturing employment is shown in this *Forecast's* cover chart. Now the state's largest manufacturing employer, this sector is forecast to be one of the state's strongest job growth engines over the next few years.

FEATURE

Got savings? This play on the ubiquitous milk commercial is a timely question because the U.S. personal savings rate recently went negative and the first wave of baby boomers is rapidly approaching retirement. It is also the subject of the feature article. In his article entitled "Are We Saving Enough," Jagadeesh Gokhale analyzes households' motivations to save and discusses the role that saving plays in improving living standards. Finally, it explores how much those about to retire might need to save to adequately prepare for retirement. Dr. Gokhale is an economic advisor in the Research Department of the Federal Reserve Bank of Cleveland.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1984 to 2003 and for every quarter from 1998 through 2003. The solution of the Idaho Economic Model for this forecast begins with the second quarter of 2000.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. The current job numbers extend through the second quarter of 2000. The estimates through this year's first quarter have been benchmarked. The estimates for April, May, and June of 2000 are preliminary. All of these data have been adjusted and converted into quarterly estimates by the Division of Financial Management (DFM).

In the July 2000 Idaho Economic Forecast it was predicted that Idaho nonfarm employment would advance at a 5.8% annual rate in the first quarter of 2000. The final data for this quarter shows this

projection was slightly optimistic. Idaho nonfarm employment rose 4.1% in the first quarter of 2000. Looked at another way, actual employment was about 2,400 (0.44%) lower than had been anticipated. The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the first quarter of 2000. The BEA will release its next round of Idaho personal income estimates in late October 2000. With this release, the estimates will run through the second quarter of 2000.

Earlier this fall, a new version of DRI's national economic model was released. Significant data changes to this model included the rebasing of several series and the addition of new variables and deletion of several older variables. As can be seen in the tables of this forecast, all of the chain-weighted implicit deflators now have a 1996 base year. Previously, 1992 was the base year. Probably the most noticeable impacts of these changes are on real GDP, real personal income, and real per capita income. In addition, a 1996 base has also been adopted for all of the industrial production indices.

The entire Idaho Economic Model (IEM) was reviewed this fall. Given the changes in the underlying national economic data, all of the model's equations were reviewed and reestimated. A detailed listing of the revised IEM equations, as well as a description of all exogenous and endogenous variables, can be found at the end of this *Forecast*.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www2.state.id.us/dfm/econinfo.htm>.

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